

**DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN**

**LACKAWANNA COUNTY**

**COMPLIANCE AUDIT REPORT**

**FOR THE PERIOD**

**JANUARY 1, 2008, TO DECEMBER 31, 2010**





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## **BACKGROUND**

On December 18, 1984, the Pennsylvania Legislature adopted the Municipal Pension Plan Funding Standard and Recovery Act (P.L. 1005, No. 205, as amended, 53 P.S. § 895.101 et seq.). The act established mandatory actuarial reporting and funding requirements and a uniform basis for the distribution of state aid to Pennsylvania's public pension plans. Section 402(j) of Act 205 specifically requires the Auditor General, as deemed necessary, to make an audit of every municipality which receives general municipal pension system State aid and of every municipal pension plan and fund in which general municipal pension system State aid is deposited.

Pension plan aid is provided from a 2 percent foreign casualty insurance premium tax, a portion of the foreign fire insurance tax designated for paid firefighters and any investment income earned on the collection of these taxes. Generally, municipal pension plans established prior to December 18, 1984, are eligible for state aid. For municipal pension plans established after that date, the sponsoring municipality must fund the plan for three plan years before it becomes eligible for state aid. In accordance with Act 205, a municipality's annual state aid allocation cannot exceed its actual pension costs.

In addition to Act 205, the Dickson City Borough Nonuniformed Pension Plan is also governed by implementing regulations adopted by the Public Employee Retirement Commission published at Title 16, Part IV of the Pennsylvania Code and applicable provisions of various other state statutes.

The Dickson City Borough Nonuniformed Pension Plan is a single-employer defined benefit pension plan locally controlled by the provisions of a plan agreement effective January 1, 1996, as amended.



The Honorable Mayor and Borough Council  
Dickson City Borough  
Lackawanna County  
Dickson City, PA 18519

We have conducted a compliance audit of the Dickson City Borough Nonuniformed Pension Plan for the period January 1, 2008, to December 31, 2010. The audit was conducted pursuant to authority derived from Section 402(j) of Act 205 and in accordance with *Government Auditing Standards* applicable to performance audits issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of the audit were:

1. To determine if municipal officials took appropriate corrective action to address the finding contained in our prior audit report; and
2. To determine if the pension plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies.

Our audit was limited to the areas related to the objectives identified above. Dickson City Borough contracted with an independent certified public accounting firm for audits of its financial statements prepared in conformity with the accounting practices prescribed or permitted by the Department of Community and Economic Development of the Commonwealth of Pennsylvania for the years ended December 31, 2008 and 2009, and an audit of its basic financial statements for the year ended December 31, 2010, which are available at the borough's offices. Those financial statements were not audited by us and, accordingly, we express no opinion or other form of assurance on them.

Borough officials are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the Dickson City Borough Nonuniformed Pension Plan is administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies. In conducting our audit, we obtained an understanding of the borough's internal controls as they relate to the borough's compliance with those requirements and that we considered to be significant within the context of our audit objectives, and assessed whether those significant controls were properly designed and implemented. Additionally, we tested transactions, assessed official actions, performed analytical procedures and interviewed selected officials to the extent necessary to satisfy the audit objectives.

The results of our tests indicated that, in all significant respects, the Dickson City Borough Nonuniformed Pension Plan was administered in compliance with applicable state laws, regulations, contracts, administrative procedures, and local ordinances and policies, except as noted in the following findings further discussed later in this report:

Finding No. 1 – Noncompliance With Prior Audit Recommendation –  
Incorrect Data On Certification Form AG 385 Resulting In  
An Overpayment Of State Aid

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In  
An Underpayment Of State Aid

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System

The accompanying supplementary information is presented for purposes of additional analysis. We did not audit the information and, accordingly, express no form of assurance on it. However, we are extremely concerned about the funded status of the plan contained in the schedule of funding progress included in this report which indicates the plan's funded ratio is 46.5% as of January 1, 2009, which is the most recent date available. We encourage borough officials to monitor the funding of the nonuniformed pension plan to ensure its long-term financial stability.

The contents of this report were discussed with officials of Dickson City Borough and, where appropriate, their responses have been included in the report.

February 3, 2012

JACK WAGNER  
Auditor General

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
STATUS OF PRIOR FINDING

Noncompliance With Prior Audit Recommendation

Dickson City Borough has not complied with the prior audit recommendation concerning the following as further discussed in the Findings and Recommendations section of this report:

- Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – Noncompliance With Prior Audit Recommendation – Incorrect Data On Certification Form AG 385 Resulting In An Overpayment Of State Aid

Condition: As disclosed in the prior audit report, the borough certified one ineligible nonuniformed employee (1 unit) and overstated payroll by \$27,405 in 2007, and certified one ineligible nonuniformed employee (1 unit) and overstated payroll by \$30,978 in 2008 on Certification Form AG 385. The ineligible employee was not a member of the plan due to not meeting the minimum age requirement contained in the plan’s governing document.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure compliance with the prior audit recommendation.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Since the borough’s state aid allocations were based on unit value, the effect of the incorrect certification of pension data on the borough’s state aid allocations is identified below:

<u>Year</u>	<u>Units Overstated</u>	<u>Unit Value</u>	<u>State Aid Overpayment</u>
2007	1	\$3,206	\$ 3,206
2008	1	\$3,186	\$ 3,186
Total Overpayment of State Aid			<u>\$ 6,392</u>

In addition, since the borough used the overpayments of state aid to pay the minimum municipal obligations (MMOs) due to the nonuniformed pension plan, if the reimbursement to the Commonwealth is made from the pension plan, the plan’s MMOs will not be fully paid.

Recommendation: We again recommend that the total excess state aid, in the amount of \$6,392, be returned to the Commonwealth. A check in this amount, with interest compounded annually from date of receipt to date of repayment, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222. A copy of the interest calculation must be submitted along with the check.

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 1 – (Continued)

In addition, if the reimbursement to the Commonwealth is made from nonuniformed pension plan funds, we recommend that any resulting MMO deficiencies be paid to the pension plan with interest, at a rate earned by the pension plan.

Management’s Response: Municipal officials agreed with the finding without exception.

Finding No. 2 – Incorrect Data On Certification Form AG 385 Resulting In An Underpayment Of State Aid

Condition: The borough failed to certify 1 eligible nonuniformed employee (1 unit) and understated payroll by \$30,155 in 2009 on Certification Form AG 385. In addition, the borough failed to certify 2 eligible police officers (4 units) and understated payroll by \$62,484, and failed to certify 1 eligible nonuniformed employee (1 unit) and understated payroll by \$31,031 in 2010 on Certification Form AG 385.

Criteria: Pursuant to Act 205, at Section 402(e)(2), an employee who has been employed on a full-time basis for at least six consecutive months and has been participating in a pension plan during the certification year is eligible for certification.

Cause: Plan officials failed to establish adequate internal control procedures to ensure the accuracy of the data certified.

Effect: The data submitted on these certification forms is used, in part, to calculate the state aid due to the municipality for distribution to its pension plans. Because the borough’s state aid allocations were based on unit value, the borough received an underpayment of state aid of \$19,303 as identified below:

<u>Year</u>	<u>Type Of Plan</u>	<u>Units Understated</u>	<u>Unit Value</u>	<u>State Aid Underpayment</u>
2009	Nonuniformed	1	\$ 3,128	\$ 3,128
2010	Police	4	\$ 3,235	\$ 12,940
	Nonuniformed	1	\$ 3,235	\$ 3,235
Total Underpayment of State Aid				<u>\$ 19,303</u>

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
FINDINGS AND RECOMMENDATIONS

Finding No. 2 – (Continued)

Although the borough will be reimbursed for the underpayment of state aid due to the borough's certification errors, the full amount of the 2009 and 2010 state aid allocations were not available to be deposited timely and therefore were not available to pay operating expenses or for investment.

Recommendation: We recommend that plan officials establish adequate internal control procedures to ensure compliance with the instructions that accompany Certification Form AG 385 to assist them in accurately reporting the required pension data.

Management's Response: Municipal officials agreed with the finding without exception.

Finding No. 3 – Failure To Maintain An Adequate Record-Keeping System

Condition: The pension plan's record-keeping system did not provide effective control over assets, revenues and expenses and does not meet the minimum requirements of financial records recommended by this department. The deficiencies are as follows:

- Custodial account statements were not maintained;
- The 2011 minimum municipal obligation calculation was not maintained; and
- The 2009 Certification Form AG 385 was not maintained.

Criteria: An adequate system of accounting and record keeping is a prerequisite for sound administration of pension plans.

Cause: Plan officials were unaware of their various record-keeping responsibilities and there was a recent turnover of plan officials.

Effect: Although copies of plan documents were obtained from third-party sources in order to complete the audit procedures, the failure of plan officials to maintain adequate records prohibits municipal officials from effectively monitoring the plan's financial operations.

Recommendation: We recommend that plan officials establish accounting procedures which meet the minimum record-keeping requirements of this department. Plan officials should refer to the Auditor General's Bulletin No. 2-88 entitled "Preparation, Maintenance and Auditability of Financial Records," for further guidance in establishing adequate accounting procedures.

Management's Response: Municipal officials agreed with the finding without exception.

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
POTENTIAL WITHHOLD OF STATE AID

Finding No. 1 contained in this audit report cites an overpayment of state aid to the borough in the amount of \$6,392. A condition of a repeat finding of this nature may lead to a total withholding of state aid in the future unless that finding is corrected. A check in this amount with interest, at a rate earned by the pension plan, should be made payable to: Commonwealth of Pennsylvania, and mailed to: Department of the Auditor General, Municipal Pension & Fire Relief Programs Unit, 11 Stanwix Street, Suite 1450, Pittsburgh, PA 15222.

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
 SUPPLEMENTARY INFORMATION  
 (UNAUDITED)

SCHEDULE OF FUNDING PROGRESS

Historical trend information about the plan is presented herewith as supplementary information. It is intended to help users assess the plan's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other state and local government retirement systems.

The actuarial information is required by Act 205 biennially. The historical information, beginning as of January 1, 2005, is as follows:

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded (Assets in Excess of) Actuarial Accrued Liability (b) - (a)	Funded Ratio (a)/(b)	Covered Payroll (c)	Unfunded (Assets in Excess of) Actuarial Accrued Liability as a % of Payroll [(b-a)/(c)]
01-01-05	\$ 350,149	\$ 807,649	\$ 457,500	43.4%	\$ 412,664	110.9%
01-01-07	546,603	1,068,104	521,501	51.2%	493,537	105.7%
01-01-09	639,740	1,375,496	735,756	46.5%	589,452	124.8%

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the actuarial accrued liability as a factor.

Analysis of the dollar amount of the actuarial value of assets, actuarial accrued liability, and unfunded (assets in excess of) actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (Column 4) provides one indication of the plan's funding status on a going-concern basis. Analysis of this percentage, over time, indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan.

Trends in unfunded (assets in excess of) actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded (assets in excess of) actuarial accrued liability as a percentage of annual covered payroll (Column 6) approximately adjusts for the effects of inflation and aids analysis of the plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, where there is an unfunded actuarial accrued liability, the smaller this percentage, the stronger the plan. However, when assets are in excess of the actuarial accrued liability, the higher the bracketed percentage, the stronger the plan.

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
(UNAUDITED)

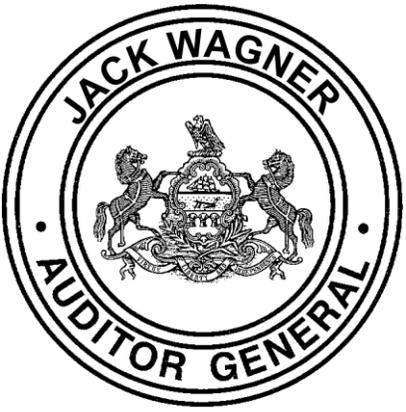
SCHEDULE OF CONTRIBUTIONS FROM EMPLOYER  
AND OTHER CONTRIBUTING ENTITIES

Year Ended December 31	Annual Required Contribution	Percentage Contributed
2005	\$ 78,555	100.0%
2006	116,445	100.0%
2007	114,230	100.0%
2008	146,016	100.0%
2009	141,658	100.0%
2010	157,727	100.0%

DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
SUPPLEMENTARY INFORMATION  
NOTES TO SUPPLEMENTARY SCHEDULES  
(UNAUDITED)

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation date follows:

Actuarial valuation date	January 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level dollar
Remaining amortization period	13 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	6.5%
Projected salary increases	4.5%
Includes inflation at	Not disclosed
Cost-of-living adjustments	None assumed



DICKSON CITY BOROUGH NONUNIFORMED PENSION PLAN  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania

Dickson City Borough Nonuniformed Pension Plan  
Lackawanna County  
801-805 Boulevard Avenue  
Dickson City, PA 18519

The Honorable Anthony Zaleski	Mayor
Ms. Barbara Mecca	Council President
Ms. Donna Sosik	Secretary

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, Room 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at [www.auditorgen.state.pa.us](http://www.auditorgen.state.pa.us).